



THE PROBLEM AND CHALLENGE

Across the country, lower-income Americans face common barriers to building savings and investments. These barriers include insufficient experience with money management and a lack of financial products suited to people's means and desires. These conditions prevent an ever-growing number of families from building financial resilience, which leaves them vulnerable to even small financial setbacks. Renters and minority populations make up a disproportionate share of asset-poor households. Their numbers are escalating annually due to the intransigent challenges of intergenerational poverty, an eroding middle class and a growing racial wealth divide.

"The Financial Diaries" is a 2017 book published by Princeton University Press that documents the hidden inequality, instability and uncertainty of the majority of American households. The writers watched money move in and out of hundreds of households for a year. The conclusion is that unexpected expenses can become calamities that exact a high cost upon families – and upon the resources of social safety net programs. One in four people in the nation are susceptible to "asset poverty," an economic and social condition that is more persistent and prevalent over the past decade than income poverty. A household is asset poor when it lacks financial resources sufficient to provide for its family members' basic needs for a period of three months. Renters and minority populations make up a disproportionate share of asset-poor households. Their numbers are escalating annually due to the intransigent challenges of intergenerational poverty, a culture of personal finance inaction, entrenched tax policies that favor debt and home ownership, and inadequate access to long-term and affordable real estate investments. This leaves people on the margins of an otherwise engaged society.

With the situation growing in Portland and the nation, Mercy Corps took action. We used human-centered design principles to understand the motivations of low-income and renter populations and the impediments that hinder them from taking personal financial action, such as long-term investing, that would improve their lives. The Community Investment Trust (CIT) is the product that emerged from that research. Our model creates a tax-paying corporate entity, not a non-profit; we envision non-profit partners, however, being the key creators and implementers of CIT projects in their communities. The CIT addresses long-standing community economic development challenges in cities, counties and states throughout the nation: financial inclusion, equitable development, and inclusive growth.

A NEW INVESTMENT PRODUCT

Long-term investing in real estate is a proven way to build assets – and, as we learned in our research, it is an avenue that appeals to renters and other low-income people. The CIT is a proprietary investment product owned by Mercy Corps but intended for replication by other organizations. Designed to meet the needs and desires of low- to moderate-income families, the first project, East Portland CIT Corporation (and its commercial retail property, Plaza 122 with 27 business and non-profit tenants reflecting the diversity of the neighborhood), will provide 300-500 families with a long-term investment opportunity in a commercial-retail building in their neighborhood (four zip codes – 97216, 97230, 97233, 97236). Investors will purchase, over time, the \$450K in initial equity (down payment), which was provided as debt to purchase and improve Plaza 122 by Mercy Corps and two impact investors. Mercy Corps' CIT program will track outcomes and impact on three mutually reinforcing levels: 1) the individual/family level, 2) the property/ tenant level and 3) the community level. We anticipate that neighborhoods incorporating a CIT will become safer, more equitable and economically strong with engaged, voting citizens.

No other financial product or community development model in the private, public or nonprofit sector has been designed like the CIT. It is both an inclusive wealth-building path and a community economic development strategy. Its unique advantages include: 1) Low dollar (\$10-\$100) monthly investments. 2) Short and long-term returns for investors through an annual dividend and share price change annually. 3) Guaranteed protection from

loss for investors through a direct pay letter of credit from a bank. 4) Investor education course, called “Moving from Owing to Owning”, offered in five languages covering budgeting, goal setting and the risk and returns profiles of investments. 5) Investor efficient tools including a website - investcit.com and an SEC compliant management portal for investors. **We are proud that the CIT declared a 9.6% dividend in its first year and the share price will increase for our 97 investors, based upon our annual appraisal, from \$10 to \$14.57 on 1/1/19.**



Plaza 122

Plaza 122, built in 1962 as a single story (with basement) commercial/retail zoned office space, has 28,672 sq. ft. on a 1.43 acre lot. The property is proximate to many churches, a library, fire station, a large high school, affordable housing, substantial ethnic diversity and strong neighborhood groups and associations. Mercy Corps curated a diverse tenant mix, including The Somali American Association of Oregon, Africa Family Holistic Health Organization, a Latina-owned hair salon, Russian importer of lotions, multi-lingual tax and accounting firms, a low-cost funeral preparation company, faith-based organizations and many small businesses.

2018 Impact

- 96% of the investors reported using financial planning techniques to stay on track toward their financial goals since becoming a CIT investor and graduating the Owing to Owning class.
- 65% reported becoming more involved in their community by participating in neighborhood organizations and events.
- 33% reported an improved credit score.
- 98% are extremely likely or already have referred a friend to the CIT.

2018 Demographics

- 53% of our investors are renters.
- 49% were born in a country outside of the United States.
- 59% are from minority groups.
- 54% make an income of less than \$40,000 per year
- 68% had never invested before.

COMMUNITY OWNERSHP, OVERSIGHT AND TRAINING

A key aspect to the CIT model is creating the ownership, oversight and fiduciary responsibility within the community. The intention of Mercy Corps and CIT leadership is to have the investors and local board guide all decisions. Mercy Corps retains no interest in the corporation or its ownership. It does hold debt, subordinated to the primary bank real estate loan, which will be repaid as investors buy the debt as owners over time. A large part of Mercy Corps community connection efforts solidified around a course called Moving from Owing to Owning. The



Eight hour course (two 4-hour sessions, or four 2-hour sessions) course covers goal planning, budgeting and investing risks and returns. The course is offered in five languages and involves peer sharing and learning. To retain the learning asset in the community, Mercy Corps sought community leaders to teach the course at a stipend of \$25/hour. The course is a prerequisite to investing, which is an extra hurdle to obtaining investors, but should help investors succeed and stick to their monthly investment commitment. The course is taught in English, Arabic, Spanish, Vietnamese and Russian.

VISION FOR REPLICATION

Our vision for the model's replication is through partners who can use our CIT Tool Kit to build upon the success of the pilot project to ultimately create a learning community of projects. Mercy Corps believes that the CIT will be a powerful tool to inspire people to have a direct hand in improving their own financial well-being as well as their community's health and prosperity. Mercy Corps envisions the replication of our model under criteria ensuring that participating organizations possess the competence and capacity to use the CIT Tool Kit successfully. We are committed to assisting organizations who have variations from our pilot project with guidance on a range of project types with case studies, strategies and solutions on primary areas of project feasibility and design.

CIT Replication Principles and Goals:

- **Identify Replication Partners in places of need** regionally and nationally with a lead organization in each location with the capacity to create and manage a CIT. These may include Non-profits / Cities / Housing Agencies / Churches / Economic Development Agencies or a collaboration of stakeholders.
- **Maintain Focus on Improving Financial Decision Making** – Through engaged community leadership, fiscal literacy trainings and shared learning, community members will improve financial planning and decision making.
- **Increase Financial Inclusion, Equitable Development and Reduce Asset Poverty** – Among low-income communities and with renters in diverse urban and rural communities by providing investors a path to build assets by investing in a profitable CIT.
- **Improve Community Health** by engaging community members in a common cause to increase safety, unity, and community engagement through making an investment in the community in which they live.
- **Maintain and Build Local Community Oversight to Companion Community Ownership** by fostering leadership and the skills of a board of directors in corporate and fiduciary oversight, community social responsibility and accountability, and the promotion of environment and community health.

Mercy Corps has designed and refined tools to make the implementation of subsequent projects efficient and effective. The Tool Kit can help organizations implement a range of project types with strategies and solutions for feasibility and design.

Products for Initial Replication with project design, development and implementation

1. **Organizational Self-assessment Tool and Staffing Requirements**
(Helps assess an organization's requisite skills to create and manage a CIT)

- 2. Community Mapping Tool**
(Helps scan for the assets and gaps in a project's geography)
- 3. Property Evaluation Tool**
(Outlined above, the tool helps evaluate and score eight important project categories)
- 4. Property Financial Spreadsheets**
(Spreadsheet for project pro-forma analysis of capitalization and profitability)
- 5. Capitalization Options: Debt / Subordinated Debt / Equity / Grant Subsidy**
(Augments the spreadsheets above with strategy on capitalization)
- 6. Resources for Project Capitalization**
(Outlines an approach to the range of partners in a capitalization stack)
- 7. Investor Training and Curriculum**
(Owning to Owning class and delivery strategy)
- 8. Legal Framework and Entity Formation**
(Templates and rationale for legal structure)
- 9. Board of Director Training**
(Guides how to form, shift and maintain competent fiduciary oversight for the CIT in the community)
- 10. Communications, Public Relations Guidance**
(Media and marketing strategy and examples)

Products for Ongoing Operations (annual service fee)

- 11. Website: InvestCIT.com**
(Updated with relevant information for investors. Platform for replicator projects)
- 12. Access to Online Investment Management Portal and Customer Service Provider**
(Site for investor management)
- 13. CIT and Investor Management**
(In addition to the portal above, we have guidance on project operations and finance management, and investor management for a wide range of ethnic, religious and age groups)
- 14. Annual Monitoring, Evaluation, Research, Learning and Impact Evaluation**
(This menu of impact tracking is both a design service and a monitoring and reporting service)
- 15. Community of Practice Sharing with Replicators**
(This tool will be built as a method of sharing replicator learning and their experiences for the betterment of the model as it is replicated and for existing CIT projects to improve management over time)

Contact: John W. Haines jhaines@mercycorps.org 503 896-5072
Sven Gatchev sgatchev@mercycorps.org 503 896-5073
